



County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

December 14, 2007

To: Chairwoman Yvonne B. Burke
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to be "W. T. Fujioka", written over a horizontal line.

Board of Supervisors
GLORIA MOLINA
First District

YVONNE B. BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

DOCUMENTARY TRANSFER TAX (DTT)

This is in response to your Board's motion of October 30, 2007 directing the Chief Executive Office (CEO) to convene a working group including the Assessor, Registrar-Recorder/County Clerk (RR/CC), Auditor-Controller (A/C), Treasurer and Tax Collector (TTC), and County Counsel to further research DTT enforcement and report back to the Board in 45 days on:

- Recommendation for improving the process to enforce transfer tax collections, including, but not limited to, recommendations for County ordinance and State legislative amendments where appropriate;
- An estimate of the amount of outstanding transfer tax owed to the County and of what the amount of future transfer tax collections might be; and
- A recommended timeline for implementation.

As instructed, the CEO convened a working group with the Assessor, RR/CC, A/C, TTC, and County Counsel. As stated in the motion, DTT is typically paid at the time a deed is recorded with the County's RR/CC. However, when a greater than fifty percent (50%) interest in a corporation occurs, no deed may ever be recorded. Currently, collection on these transactions occurs when a corporation voluntarily pays the tax. Enforcement and improved collection of DTT on these transactions was discussed by the working group. In addition, the working group looked at other counties who either have a process in place or are in the planning stages in order to evaluate their processes, and identify benefit and risks they have addressed in their implementation. This review process is currently ongoing.

Each Supervisor
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Over several meetings, the working group discussed types of collections, volume of transactions, data needs and interfaces between each of the impacted departments, tax collection form design, retroactive processing, appeals process, audit process, and penalties. At this time, each affected department is developing details on how the process will work including an implementation timeline, tentatively targeted for July 1, 2008.

As requested by the motion, the Assessor determined there are approximately 10-15 changes in corporate control per month where no DTT is collected. According to current law, the statute of limitations for collection of DTT is three years from when the transfer occurs. The Assessor typically learns of the changes in corporate control 18 months after the occurrence, leaving only approximately 18 months to enforce collection of the tax. To extend the statute of limitations to allow the County additional time to pursue collection will require legislative changes.

Based on that timeframe, the Assessor reviewed the last two years of corporate transfers in Los Angeles County and identified 643 parcels at an estimated transfer tax of \$6.90 million owed to the County, or \$3.45 million per year. We are also analyzing costs necessary to implement and maintain this program including one-time costs and ongoing costs.

Recognizing that any delay in implementation means lost revenue to the County, the working group identified responsibilities for each of the named departments, as well as needed computer system changes, possible ordinance changes, audit and appeals processes, and legislative changes. The working group continues to meet monthly to discuss the development process and the progression to an implementation timeline. We anticipate returning to the Board at the end of January 2008 with a Board report and recommendations for approval.

Please contact Debbie Lizzari at (213) 974-6872 if you have any questions or need additional information.

WTF:DL
AHW:ljp

c: Executive Officer, Board of Supervisors
County Counsel
Auditor-Controller
Registrar-Recorder/County Clerk
Assessor
Treasurer and Tax Collector

DTT.bm